



COUNCIL AGENDA SYNOPSIS

| -----Initials----- | | | | ITEM No. |
|--------------------|-------------|----------------|----------------|----------|
| Meeting Date | Prepared by | Mayor's review | Council review | 6 |
| 11/17/14 | PMc | <i>PMc</i> | <i>h</i> | |
| 11/24/14 | PMc | <i>PMc</i> | <i>h</i> | |
| 12/01/14 | PMc | <i>PMc</i> | <i>h</i> | |
| | | | | |

ITEM INFORMATION

| | | | |
|---|---|---|---|
| STAFF SPONSOR: PEGGY MCCARTHY | | ORIGINAL AGENDA DATE: 11/17/14 | |
| AGENDA ITEM TITLE A financing proposal for the TIB Redevelopment Project comprised of approximately \$2.25M of short term debt and approximately \$3.85M of long term debt. | | | |
| CATEGORY <input checked="" type="checkbox"/> Discussion Mtg Date 11/17/14 | <input type="checkbox"/> Motion Mtg Date | <input type="checkbox"/> Resolution Mtg Date | <input checked="" type="checkbox"/> Ordinance Mtg Date 12/01/14 |
| <input type="checkbox"/> Bid Award <input type="checkbox"/> Public Hearing <input checked="" type="checkbox"/> Other Mtg Date Mtg Date Mtg Date 11/17/14 | | | |
| SPONSOR <input type="checkbox"/> Council <input type="checkbox"/> Mayor <input type="checkbox"/> HR <input type="checkbox"/> DCD <input checked="" type="checkbox"/> Finance <input type="checkbox"/> Fire <input type="checkbox"/> IT <input type="checkbox"/> P&R <input type="checkbox"/> Police <input type="checkbox"/> PW | | | |
| SPONSOR'S SUMMARY On September 2, 2014, the Council approved a financing plan for the TIB Redevelopment Project (Resolution #1841). A financing proposal with both a short and a long term component is being presented consistent with the approved plan. | | | |
| REVIEWED BY <input type="checkbox"/> COW Mtg. <input type="checkbox"/> CA&P Cmte <input checked="" type="checkbox"/> F&S Cmte <input type="checkbox"/> Transportation Cmte <input type="checkbox"/> Utilities Cmte <input type="checkbox"/> Arts Comm. <input type="checkbox"/> Parks Comm. <input type="checkbox"/> Planning Comm. | | | |
| DATE: | | COMMITTEE CHAIR: | |

RECOMMENDATIONS:

SPONSOR/ADMIN. **Finance Department**

COMMITTEE **N/A**

COST IMPACT / FUND SOURCE

| | | |
|---|-----------------|------------------------|
| EXPENDITURE REQUIRED | AMOUNT BUDGETED | APPROPRIATION REQUIRED |
| \$ | \$ | \$ |
| Fund Source: MISCELLANEOUS FUNDING SOURCES, SEE DETAIL | | |
| Comments: | | |

| MTG. DATE | RECORD OF COUNCIL ACTION |
|-----------|--|
| 11/17/14 | |
| 11/24/14 | |
| 12/1/14 | |
| | |
| MTG. DATE | ATTACHMENTS |
| 11/17/14 | Informational Memorandum dated 11-12-14 |
| | Attachments: PFM Memorandum and Exhibits A - E, |
| | Resolution 1841 - TIB Redevelopment Project Financing Plan |
| 11/24/14 | |
| | |
| | |
| | |



INFORMATIONAL MEMORANDUM

TO: Councilmembers
Mayor Haggerton

FROM: Peggy McCarthy, Finance Director

DATE: November 12, 2014

SUBJECT: Tukwila International Boulevard (TIB) Redevelopment Project Financing Proposal

ISSUE

Consider the TIB Redevelopment Project financing proposal for approximately \$2.25M in short term debt and approximately \$3.85M in long term debt; the ordinances supporting the proposal will be presented for consideration at the November 24th Committee of the Whole Meeting and for approval at the December 1, 2014 Regular Council meeting.

BACKGROUND

Year-to-date, \$3.75M has been spent on three motel purchases. Interim financing has been provided through a \$1.9M General Fund interfund loan to the Facilities Fund 302. The financing proposal presented will provide permanent financing for the project; the structure and terms of the proposed debt is based on the TIB Redevelopment Project financing plan approved by Council at the September 2, 2014 Regular Council meeting. This is the next step in the financing plan process.

DISCUSSION

Upon plan approval, the City's financial advisor, PFM, obtained financing proposals from approximately ten banks. Attached are two documents prepared by PFM - a memorandum that summarizes the proposal process and results, and Exhibits A – E that compare proposal terms and provide other pertinent information. The proposals selected are as follows:

- | | | |
|------------------------|-----------------------|---------------------------|
| • Short term component | 3-year line of credit | Bank of the West |
| • Long term component | 20-year bonds | Zions First National Bank |

FINANCIAL IMPACT

The estimated annual debt service for the proposed debt compares favorably with the projected debt service reflected in the 2015-2020 Financial Planning Model and, in comparison, yields a small savings, as demonstrated below.

| Estimated Debt Service - in Thous \$ | | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Financial Planning Model 2015-2020 | \$ 313 | \$ 313 | \$ 287 | \$ 287 | \$ 287 | \$ 287 | \$ 1,774 |
| Proposals: Bank of the West | 28 | 28 | 28 | | | | 84 |
| Zions National Bank | 260 | 260 | 260 | 260 | 260 | 260 | 1,560 |
| Proposed debt total | 288 | 288 | 288 | 260 | 260 | 260 | 1,644 |
| Estimated debt service savings | \$ 25 | \$ 25 | \$ (1) | \$ 27 | \$ 27 | \$ 27 | \$ 130 |

RECOMMENDATION

The Council is being asked to consider the financing proposal; the ordinances supporting the proposal will be presented for consideration at the November 24th Committee of the Whole Meeting and for approval at the December 1, 2014 Regular Council Meeting.

ATTACHMENTS

PFM Memorandum - Update on Financing Plan for TIB Redevelopment Project
PFM Exhibits A - E
Resolution 1841 - TIB Redevelopment Project Financing Plan

City of Tukwila, Washington
Update on Financing Plan for
Tukwila International Boulevard Redevelopment Project
As of November 11, 2014

Overview

Upon approval of the Financing Plan by City Council on September 2nd, PFM proceeded to seek financing proposals for the Tukwila International Boulevard Redevelopment project: specifically, a short term line of credit (approximately \$2.25 million) and a long term 20-year bond (approximately \$3.85 million). PFM contacted approximately ten banks, on behalf of the City, and received five proposals for the short term line of credit and four proposals for the long term component.

The Line of Credit

Five banks provided proposals for the the line of credit component of the financing with interest rates ranging from 1.23% to over 3.0%. The lowest interest cost proposal was provided by Bank of The West ("BOTW"), with an indicative interest rate of 1.23% for a term of 3 years (interest only). A summary of competitive proposals and related terms is attached as Exhibit A.

The indicative interest rate of 1.23% from BOTW is based on the current LIBOR rate (0.23%) plus 1.00%. This rate will be variable and reset every 1, 3, or 6 months, as determined by the City's Finance Director at the end of each reset period. A history of LIBOR rates is shown in Exhibit B. The City may prepay the line of credit at any time, except within the term of each 1, 3 or 6 month LIBOR commitment period.

The rate provided by BOTW is in the same range as discussed previously with the Committee. The Financing Plan proposal assumed a rate of 1.25%.

PFM recommends that the City move forward with BOTW for the short term line of credit, subject to negotiation of final terms and covenants.

The Long Term Component

Four banks submitted proposals for the long term component of the financing. The indicative rates ranged from approximately 3.00% to 6.34%. The lowest rate, estimated at approximately 3.00%, was submitted by Zions First National Bank ("Zions"). A summary of competitive proposals is attached as Exhibit C.

The proposal submitted by Zions is made up of two components, with different rate modes. The first ten maturities would have fixed interest rates (similar to a fixed rate bond issue); these rates will not change for the duration of the financing. The second component is a term bond that matures in 20 years, with principal amortizing in years 11 through 20. The interest rate for the second component would be fixed for the first five years, and would reset every five years based on a specified index. The City may choose to view the financing as a Series A and a Series B. Series A is a 10 year fixed rate bond for approximately \$1.6 million and Series B is a 20 year term bond for approximately \$2.2 million that pays interest-only for the first 10 years, and amortizes over the last 10 years of the 20 year term. The Series B rate is variable, with the rate to be reset each 5 years based on the 5-year Advanced Fixed Bullet Rate quoted by the Seattle Federal Home Loan Bank (currently 1.85%), divided by 0.65.

Annual debt service under this financing structure will be approximately \$260,000 for the first 5 years. The first rate reset for Series B would occur in 2019. Exhibit E shows historical 5-year Seattle Federal Home Loan Bank rates.

We compared the Zions proposal to a publicly offered 20-year fixed rate bond issue, which would have estimated annual debt service of \$281,000, as compared to \$260,000 for the Zions proposal, (based on current market rates.) If the rates were reset at a rate 0.70% higher in each of the three resets (i.e. the 5-year index at approximately 2.55% for each rate reset), debt service would be equal to the potential bond offering. Estimated debt service for a bond offering in the current market is substantially the same as the estimated debt service in proposed Financing Plan. Although the Zions proposal exposes \$2.2 million of financing to interest rate risk after five years, it has the advantage of initial lower debt service costs, the ability to prepay after five years, and a simpler implementation process. The rate exposure is limited to the movement of the 5-year Seattle Home Loan rate, correlated with the 5-year Treasury rate (shown on Exhibit E), as compared to higher long term rates today.

PFM recommends moving forward with Zions bank for the long term portion of this financing.

We look forward to discussing these rate proposals and our recommendations on November 17th.

*Susan Musselman, Director
Duncan Brown, Senior Managing Consultant
Marc Ragan, Analyst*

City of Tukwila

Exhibits A - E



**Public Financial Management,
Inc.**

**1200 5th Avenue, Suite 1220
Seattle, WA 98101
(360) 445-0238**

**Susan Musselman, Director
November 17, 2014**



Exhibit A- Overview of Proposals - \$2.25 million Line of Credit

| | Rate Used for Finance Plan | Cashmere Valley Bank | Bank of the West | Zions Bank |
|--------------------------------------|---|---|--|--|
| Interest Rate | Fixed Rate of 1.25% | 3-month LIBOR plus credit spread | LIBOR plus credit spread | Fixed rate 1.70% |
| Credit Spread | N/A | 1.38% | 1.00% | N/A |
| Indicative Rate | 1.25% | 1.61% | 1.23% (1.38% including fees) | 1.70% |
| Draw Feature | Draws can be made on any business day up to the par amount until December 1, 2017 | Draws can be made on any business day up to the par amount until December 1, 2017 | Draws may be made in increments of \$250,000 | 100% drawn at closing |
| Undrawn fee | No undrawn fee | No undrawn fee | 0.50% (\$210 interest cost per month on \$500,000 undrawn) | N/A |
| Payment Frequency | Monthly interest payments | Semiannual interest payments | Quarterly interest payments | Semiannual interest payments |
| Estimated Annual Debt Service | \$28,125 | \$36,225 | \$27,798 | \$38,250 |
| Interest Cost per 0.25% | | \$5,625 | \$5,650 | \$5,625 |
| Prepayment | | 15 day notice, par plus accrued interest | Prepay at any time. A breakage cost may be incurred if a LIBOR loan is prepaid mid-contract | 30 days notice |
| Fees | No fees | No fees | Not to exceed bank counsel of \$10,000 | Require paying agent (est. \$300 per year) |
| Length of Term | 3-years | 3-years with term out option | 3-years with term out option | 3-years with built in 3-year optional extension |
| Term Out terms | | 10-year term out option | 1-year term out option | 3-year optional extension |
| Additional Comments | | | The Base Rate is the higher of the Bank's prevailing Prime Rate or the Federal Funds Rate plus 0.5%. The Prime Rate is currently 3.25% | Redemption provision language "Moneys received from the sale of the acquired project property to be used to redeem bonds" If Zions is used as paying agent the rates will be decreased by 5bps (difference of \$1,125 annual interest) |

Exhibit B - LIBOR Rate Trends



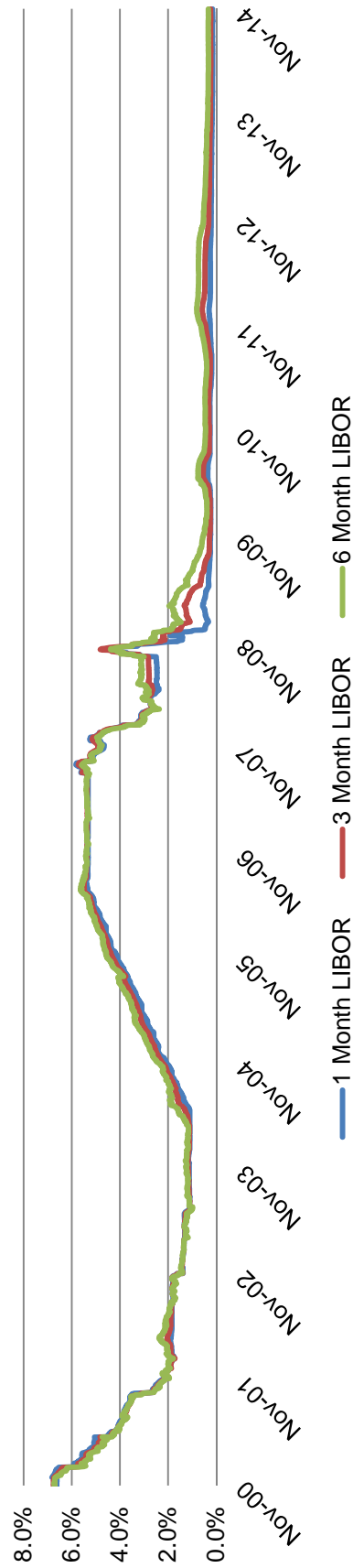
Historical LIBOR Rates

| Rates from 11/10/14 | 1M | 3M | 6M |
|----------------------------|-------|-------|-------|
| Current | 0.16% | 0.23% | 0.33% |
| Avg. 1993 - Present | 3.12% | 3.22% | 3.35% |
| 2-yr Avg. | 0.18% | 0.26% | 0.38% |
| Max (20 yrs.) | 6.82% | 6.87% | 7.11% |
| Min (20 yrs.) | 0.15% | 0.22% | 0.32% |
| Prior Year | 0.17% | 0.24% | 0.35% |
| 5 Years Prior | 0.24% | 0.27% | 0.54% |

Estimated Debt Service at Historical Rates*

| Rates from 11/10/2014 | Cashmere | BOTW |
|----------------------------|-----------|-----------|
| Current | \$ 36,272 | \$ 27,733 |
| Avg. 1993 - Present | 103,612 | 95,062 |
| 2-yr Avg. | 36,801 | 28,251 |
| Max | 185,597 | 177,047 |
| Min | 36,064 | 27,514 |
| Prior Year | 36,436 | 27,886 |
| 5 Years Prior | 37,181 | 28,631 |

Historical LIBOR Rates
November 2000 - Present



* Estimated annual interest on \$2.25 million considering historical 3 month LIBOR rates plus appropriate credit spread (1.38% and 1.00% for Cashmere Valley and Bank of The West, respectively)





Exhibit C - Overview of Long Term Proposals

| | Rate Used for Finance Plan | Bond Offering | Cashmere Valley Bank | Columbia Bank | Zions Bank |
|---|----------------------------|---------------------------|--|--|--|
| Interest Rate | All-in TIC of 3.90% | All-in TIC of 3.82% | Resets every 5 years at 5-Year Federal Reserve Swap Rate (1.91%)+ Credit Spread | Fixed rate @ 4.34% | First 10 maturities fixed at rates between 0.85% - 4.86% Last 10 maturities rate is reset every 5 years at Seattle Fed Home Loan 5 year advance rate/0.65 |
| Length of Term | 20-year bond offering | 20-year bond offering | 20-year amortization, rate reset every 5 years | 15-year fixed rate with 15-year amortization | 1st 10 maturities fixed rate last 10 maturities variable rate with 5-year resets – 20-year total term |
| Credit Spread | | | <ul style="list-style-type: none"> • 1st 5 years - 1.25% • 2nd 5 years - 1.50% • 3rd 5 years - 1.75% • 4th 5 years - 2.00% | | |
| Indicative Rate | All-in TIC of 3.90% | All-in TIC of 3.82% | <ul style="list-style-type: none"> • 1st 5 years - 3.06% • 2nd 5 years - 3.31% • 3rd 5 years - 3.65% • 4th 5 years - 3.81% | 4.34% | <ul style="list-style-type: none"> • 1st 10 years – 0.85% - 4.86% • 2nd 10 years- 2.85% |
| Estimated Annual Debt Service 20 years | \$285,000 | \$281,000 | <ul style="list-style-type: none"> • 1st 5 years - \$264,000 • 2nd 5 years - \$267,000 • 3rd 5 years - \$270,000 • 4th 5 years - \$272,000 | N/A | \$260,000 If Zions is used as paying agent rates will be reduced by 5bps (approx. \$2,000 debt service savings per year) |
| Estimated Annual Debt Service 15 years | \$336,000 | \$332,000 | <ul style="list-style-type: none"> • 1st 5 years - \$325,000 • 2nd 5 years - \$332,000 • 3rd 5 years - \$335,000 | \$355,000 | \$329,000 |
| Prepayment | 10-year par call | 10-year par call | 15 day notice, par plus accrued interest | Prepayment available after 6/1/2018 | 30 days notice commencing 2019 |
| Fees | Cost of issuance \$73,500 | Cost of issuance \$73,500 | No fees | No fees | Require paying agent (est. \$300 per year) |
| Total Gross Debt Service | \$5,740,277 | \$5,631,245 | \$5,376,075 | \$5,401,857 | \$5,196,772 |
| Total PV Debt Service | \$3,955,026 | \$3,891,703 | \$3,891,667 | \$4,056,601 | \$3,596,446 |

Exhibit D – Financing Structure Overview



Series A:

| Maturity Date | Amount | Rate |
|---------------|------------------|-------|
| 12/01/2015 | 142,000 | 0.85% |
| 12/01/2016 | 148,000 | 1.17% |
| 12/01/2017 | 150,000 | 1.60% |
| 12/01/2018 | 153,000 | 2.17% |
| 12/01/2019 | 156,000 | 2.67% |
| 12/01/2020 | 160,000 | 3.26% |
| 12/01/2021 | 165,000 | 3.93% |
| 12/01/2022 | 172,000 | 4.32% |
| 12/01/2023 | 179,000 | 4.63% |
| 12/01/2024 | 187,000 | 4.86% |
| | 1,612,000 | |

Series B:

| Maturity Date | Amount | Rate |
|---------------|--------------------|-------|
| 12/1/2015 | | 2.85% |
| 12/1/2016 | | 2.85% |
| 12/1/2017 | | 2.85% |
| 12/1/2018 | | 2.85% |
| 12/1/2019 | | 2.85% |
| 12/1/2020 | | ** |
| 12/1/2021 | | ** |
| 12/1/2022 | | ** |
| 12/1/2023 | | ** |
| 12/1/2024 | | ** |
| 12/1/2025 | 197,000 | ** |
| 12/1/2026 | 202,000 | ** |
| 12/1/2027 | 208,000 | ** |
| 12/1/2028 | 214,000 | ** |
| 12/1/2029 | 220,000 | ** |
| 12/1/2030 | 226,000 | ** |
| 12/1/2031 | 233,000 | ** |
| 12/1/2032 | 239,000 | ** |
| 12/1/2033 | 246,000 | ** |
| 12/1/2034 | 253,000 | ** |
| Total | \$2,238,000 | |

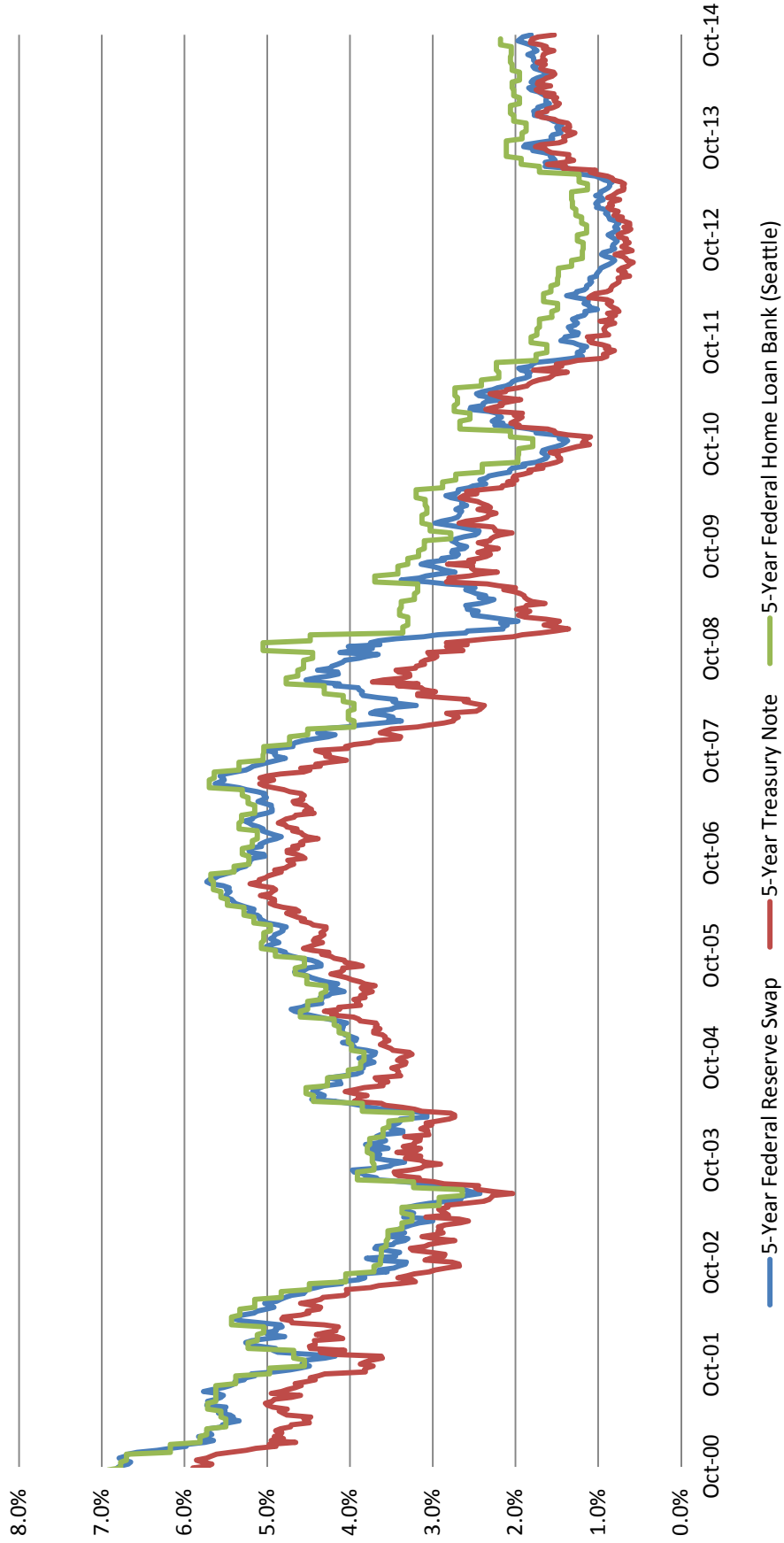


** Interest rate is reset every 5 years at the 5-year Seattle Federal Home Loan Bank rate. The first reset is in 2019.

Exhibit E – Trends of 5-Year Indices



5-Year Indices Comparison
October 2000 – Present





City of Tukwila

Washington

Resolution No. 1841

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
TUKWILA, WASHINGTON, ADOPTING A FINANCING PLAN
FOR THE URBAN RENEWAL TUKWILA INTERNATIONAL
BOULEVARD (TIB) REDEVELOPMENT PROJECT.**

WHEREAS, the City of Tukwila plans to, and has, acquired certain improved property on Tukwila International Boulevard for the purpose of redevelopment; and

WHEREAS, as part of the redevelopment plan, the City will demolish the improvements and offer the vacant land for sale, subject to certain development conditions; and

WHEREAS, it is estimated that the property acquisitions will cost approximately \$6,100,000; and

WHEREAS, the City estimates it may take up to three years to sell the property, which is estimated to produce proceeds of \$2,250,000; and

WHEREAS, while the City expects the redevelopment to provide long term strategic benefit to the City, the transactions are expected to result in a net cost to the City of \$3,850,000; and

WHEREAS, the City wishes to finance the cost of the acquisition of property in order to amortize the cost over a period of 20 years; and

WHEREAS, the City would like to have the ability to use proceeds from the sale of properties to redeem or prepay debt in order to reduce overall interest cost;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, HEREBY RESOLVES AS FOLLOWS:

The City Council hereby adopts a financing plan for the Urban Renewal Tukwila International Boulevard (TIB) Redevelopment Project whereby the City of Tukwila will secure a 3- to 5-year \$2,250,000 taxable line of credit to finance acquisition costs estimated to be recoverable through future property sales, and whereby a 20-year \$3,850,000 taxable bond will be issued for the estimated net acquisition cost to the City.

PASSED BY THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, at a Regular Meeting thereof this 2nd day of September, 2014.

ATTEST/AUTHENTICATED:

Christy O'Flaherty
Christy O'Flaherty, MMC, City Clerk

De'Sean Quinn
De'Sean Quinn, Council President

APPROVED AS TO FORM BY:

Chap Bacher For
Rachel Turpin, City Attorney

Filed with the City Clerk: 8-21-14
Passed by the City Council: 9-2-14
Resolution Number: 1841